



CHAPTER 4

The Market Strikes Back

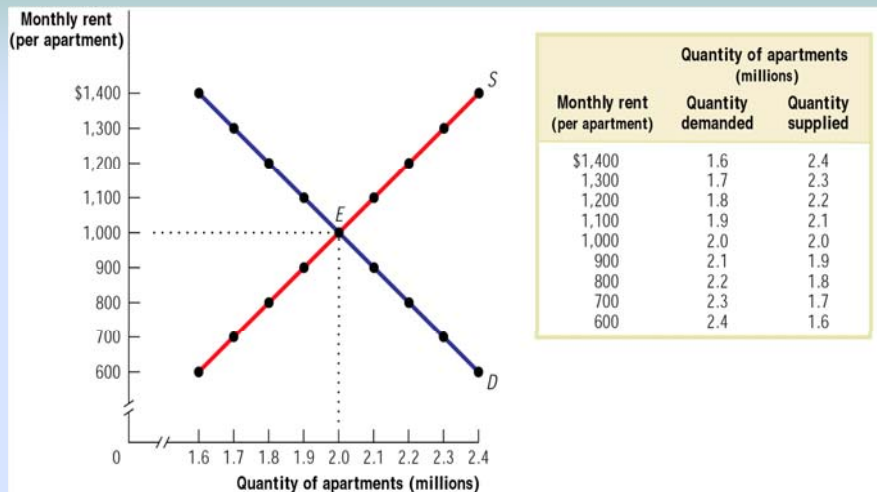
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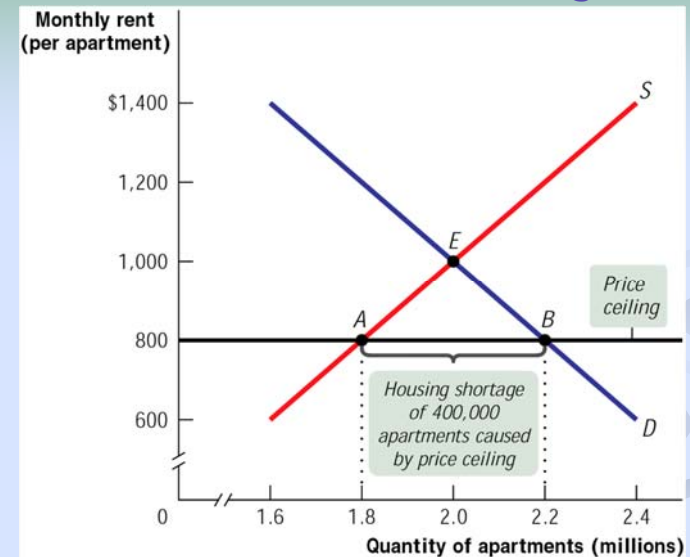
Contents of the Chapter

- Price controls
 - Price ceiling
 - Price floor
- Quantity controls—quota
- Excise tax
- Inefficiency

The Market for Apartments in the Absence of Government Controls



The Effects of a Price Ceiling



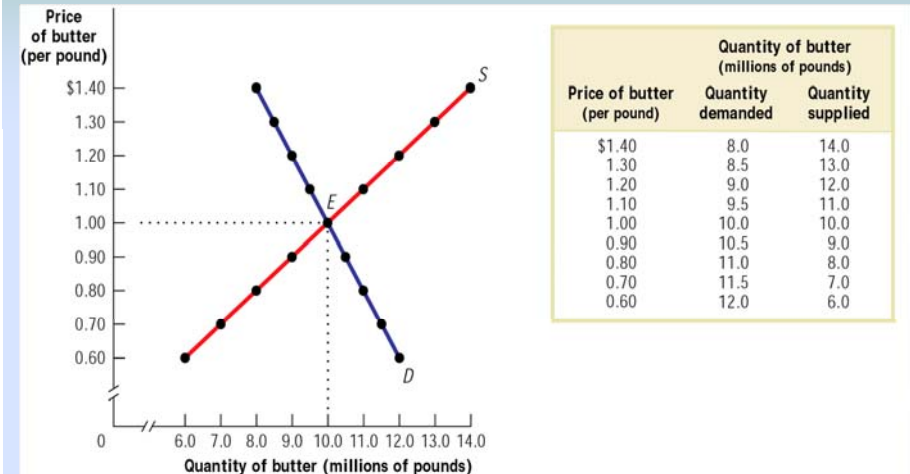
Price ceilings often lead to *inefficiency* in the forms of:

- *Inefficient allocation to consumers*
- *Wasted resources*
- *Inefficiently low quality*

They also produce *black markets*.

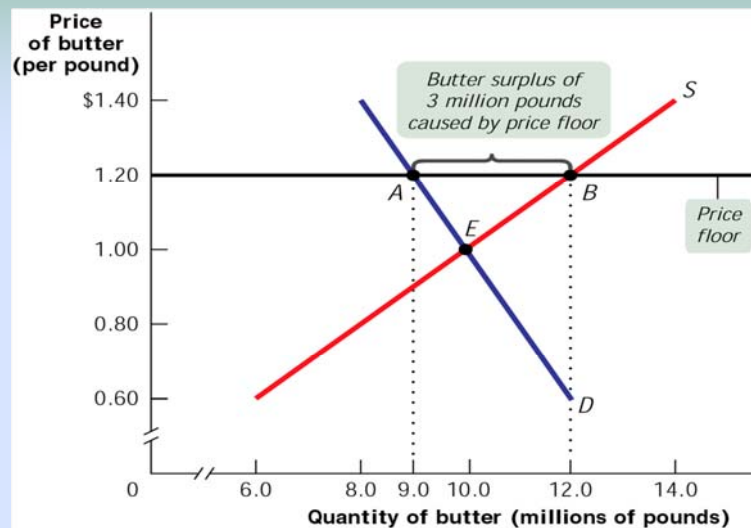
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The Market for Butter in the Absence of Government Controls



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The Effects of a Price Floor



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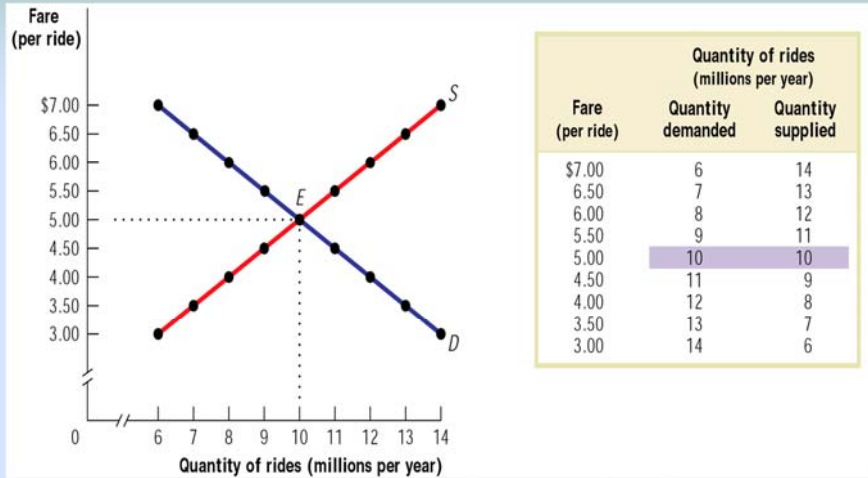
Price floors often lead to inefficiency in the forms of:

- *Inefficient allocation of sales among sellers*
- *Wasted resources*
- *Inefficiently high quality*

They can also provide an incentive for *illegal activity* (Ex.: *black labor*).

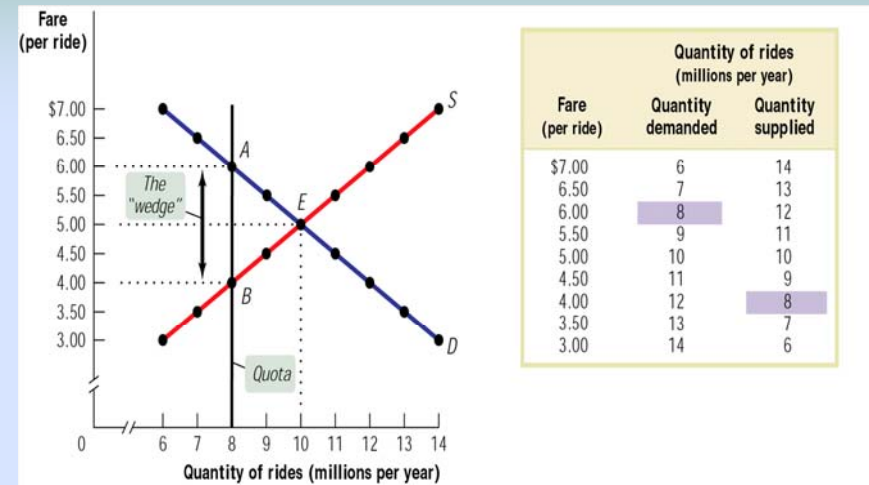
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The Market for Taxi Rides in the Absence of Government Controls



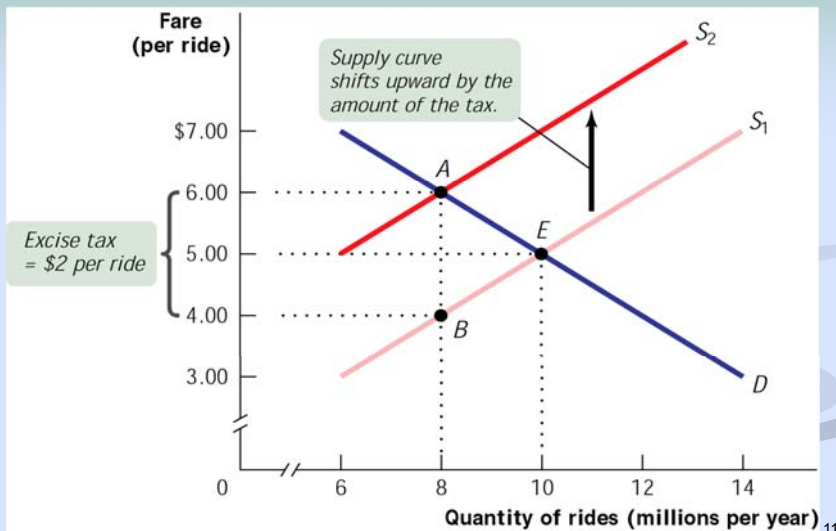
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Effect of a Quota on the Market for Taxi Rides



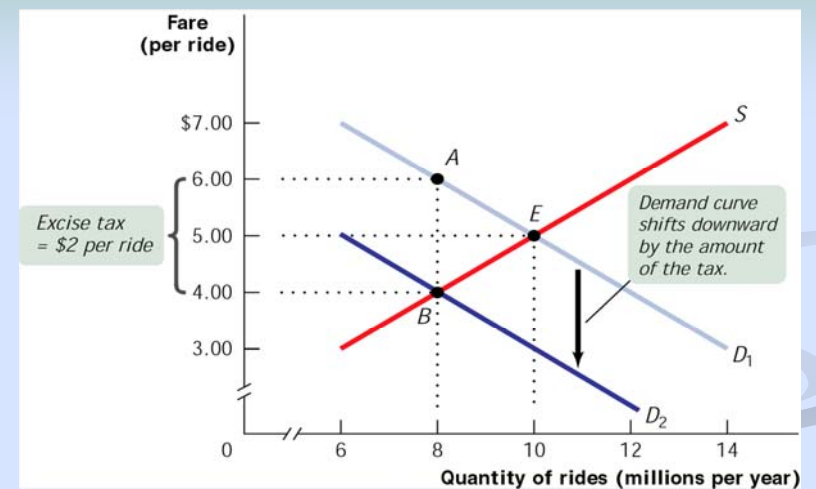
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Effect of an Excise Tax Levied on the Sales of Taxi Rides



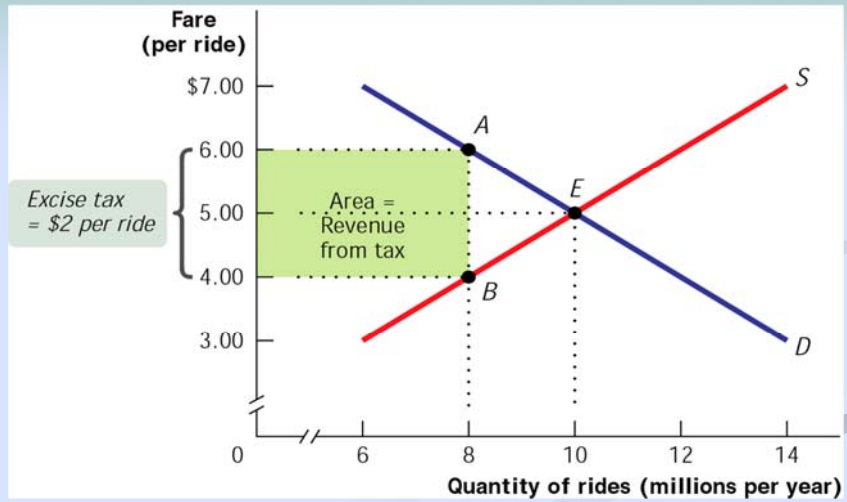
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Effect of an Excise Tax Levied on the Purchases of Taxi Rides



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The Revenue from an Excise Tax



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Excise Tax: Key Terms

- Tax incidence
- Excess burden
- Deadweight loss
- Tax revenue

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The End of Chapter 4

coming attraction:
**Chapter 5:
Elasticity**

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